

Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

13.2.1 TSX Inc. – Notice of Proposed Amendments and Request for Comments

TSX INC.

NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

TSX Inc. (“TSX”) is publishing this Notice of Proposed Amendments in accordance with the “Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto”.

Market participants are invited to provide comments on the proposed changes. Comments should be in writing and delivered by Monday, December 3, 2018 to:

Anastassia Tikhomirova
Legal Counsel
TMX Group
300 – 100 Adelaide Street West
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
Email: marketregulation@osc.gov.on.ca

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by Commission staff, and in the absence of any regulatory concerns, a notice will be published to confirm Commission approval.

Background to the Proposed Amendments

The Market on Close (“MOC”) facility is an electronic call market that establishes the official closing price for eligible listed securities on TSX. The MOC facility provides equal access and opportunity in setting the closing price, increased price efficiency, and reduced volatility of the closing price for symbols eligible for the MOC facility.

Official closing prices are determined through a closing auction. The auction determines the closing price through a process that integrates MOC orders priced at ‘market’ and eligible limit on close orders. Regular limit orders that have been placed in the central limit order book and remain open at 4:00 p.m. are also eligible to be drawn into the MOC facility in order to satisfy any MOC closing imbalance.

While TSX believes the closing auction provides stability in determining a closing price, further price volatility can be prevented by the introduction of a Closing Offset (“CO”) order type to the MOC facility and the inclusion of resting dark limit orders into the closing price allocation, positively increasing participation and the efficiency of the close.

Proposed Amendments

TSX is proposing the following amendments to the TSX Rule Book to introduce enhancements to the MOC facility operated by the TSX (the “Proposed Amendments”):

1. Create a new CO order type that:
 - Can be entered from 7:00 a.m. to 4:00 p.m., and only on symbols that are MOC eligible;
 - Can be entered on either side of the book to offset a MOC Imbalance in either direction;
 - Must contain a limit price;
 - Will not contribute to the published MOC Imbalance at 3:40 p.m.;
 - CO orders may continue to be entered in the MOC Book on either side of the published MOC imbalance with no restrictions on order volumes;
 - Will only trade if offsetting an imbalance, and will only trade in the MOC closing allocation;
 - At 4:00 p.m., CO orders that are priced more aggressively than the same side TSX Best-Bid-and-Offer (“TBBO”) will be repriced to the TBBO; and
 - Will match last in the allocation, with matching between COs following Broker/time priority, at each price level;
2. Allow non-pegged dark limit orders resting in the central limit order book (“CLOB”) to participate in the closing auction:
 - At 4:00 p.m., dark limit orders resting in the CLOB that are priced more aggressively than the same side TBBO will be repriced to the TBBO;
 - Dark limit orders will not contribute to the published MOC Imbalance at 3:40 p.m.;
 - No restrictions will be enforced on order volumes or side of book entered; and
 - Dark orders will follow in priority after visible CLOB orders executed in the MOC, and will match against each other according to Broker/time priority. (Dark orders will trade before CO orders at each price level).

Please see the attached Appendix A for a complete blackline of the Proposed Amendments to TSX Rule 4-902 and ancillary changes to TSX Rule 1-101.

Rationale

The proposed changes were developed based on feedback received during a recent MOC forum and in consultation with the MOC user community to address certain functionality enhancements to the closing auctions. Similar to the ‘closing offset’ and ‘imbalance only’ order types available in the NYSE and NASDAQ closing auctions, the CO order will provide participants with an option to provide additional liquidity in the close by enabling them to participate against any imbalance.

Likewise, enabling dark limit orders to participate in the closing auctions will provide participants additional opportunity to trade in the close and will help to dampen price volatility.

Expected Date of Implementation

The proposed changes are expected to become effective in the second quarter of 2019.

Expected Impact

The changes being introduced to the MOC facility have the potential to positively increase participation and to reduce volatility of the closing price for MOC eligible symbols.

The introduction of the CO order provides an additional source of liquidity to offset an imbalance going into the closing auction, and thus should increase the efficiency of the closing process. The inclusion of CO orders would never add to, or result in a flipped imbalance. Rather, if the aggregate number of shares comprising outstanding CO orders was larger than the number of shares required to offset the imbalance, only the amount of shares necessary to fulfill any actual imbalance would be executed. CO orders will be allocated last in priority at all price levels, as they are meant to supplement the existing orders on the book by providing additional liquidity in the event of an imbalance in the closing allocation. In the event of a flipped imbalance, CO orders will be valuable to satisfy that imbalance at the calculated closing price (subject to their stated limit), without having to go through multiple price levels.

The inclusion of resting dark limit orders from the CLOB into the closing allocation will provide MOC participants with an additional opportunity to trade in the close and will help dampen price volatility by aggregating more liquidity into the closing auction.

Expected Impact of Proposed Amendments on the Exchange's Compliance with Ontario Securities Law

The Proposed Amendments and changes to marketplace functionality will not impact TSX's compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. TSX also believes the Proposed Amendments support the maintenance of fair and orderly markets by strengthening the price formation process of the MOC facility.

Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Proposed Amendments

There is one optional order entry message protocol change (and no additional feed message protocol changes) planned for the Proposed Amendments. We expect any required changes to be minimal and likely limited to feed vendors implementing the new functionality.

Functionality will be available in the TMX external test environment prior to production so as to give clients ample opportunity to test any changes.

Do the Amendments Currently Exist in Other Markets or Jurisdictions

Order types similar to the CO (e.g. Imbalance Only) are currently available in the closing auctions operated by other markets such as NYSE and NASDAQ.

APPENDIX A

PART 1 – INTERPRETATION

Rule 1-101 Definitions (Amended)

[...]

- (2) In all Exchange Requirements, unless the subject matter or context otherwise requires:

[...]

“MOC Closing Offset Order” means a MOC Limit Order that only trades on the side of the MOC Book that is offsetting the imbalance, and never at a price within the market’s best bid and offer.

Added ([e], 2019)

[...]

“MOC Order” ~~includes~~means a MOC Market Order ~~and~~, a MOC Limit Order, or a MOC Closing Offset Order.

Amended (March 29, 2004[e], 2019)

DIVISION 9 – SPECIAL TRADING SESSION

[...]

Rule 4-902 Market-On-Close

- (1) Eligible Securities

MOC Orders may only be entered for MOC Securities.

- (2) MOC Order Entry

- (a) MOC Market Orders and MOC Limit Orders may be entered, cancelled and modified in the MOC Book on each Trading Day from 7:00 a.m. until the time the first MOC Imbalance is broadcast. MOC Closing Offset Orders may be entered, cancelled and modified in the MOC Book on each Trading Day from 7:00 a.m. until the Closing Call.

MOC Market Orders and MOC Limit Orders that are included in any MOC Imbalance broadcast may not be cancelled or modified after that MOC Imbalance is broadcast.

- (b) The MOC Imbalance is calculated and broadcast on each Trading Day at twenty minutes before the closing time and again in the event of a delay of the Closing Call as specified by the Exchange.

- (c) **Repealed (April 19, 2010)**

- (d) Following the broadcast of a MOC Imbalance, MOC Limit Orders may be entered in the MOC Book on the contra side of the MOC Imbalance. MOC Limit Orders not included as part of that MOC Imbalance broadcast may be cancelled subject to established time constraints as specified by the Exchange. MOC Closing Offset Orders may continue to be entered in the MOC Book on either side of the MOC Imbalance.

- (e) In the event of a delay of the Closing Call for a MOC Security, MOC Limit Orders may be entered in the MOC Book for such security on the contra side of the subsequent MOC Imbalance for a set period of time specified by the Exchange. Pursuant to paragraph (d), MOC Limit Orders entered during the delay may be cancelled during this time period.

- (3) Closing Call

- (a) The Closing Call shall occur on each Trading Day at the closing time. The Closing Call in a MOC Security shall be delayed for a period of ten minutes in the event that the price that would be the calculated closing price for

the MOC Security exceeds the volatility parameters determined by the Exchange. The Exchange will forthwith broadcast a message identifying the MOC Security that is subject to the delay.

- (b) In the event that the price that would be the calculated closing price for a MOC Security exceeds the closing price acceptance parameters determined by the Exchange at the end of the delay period set out in Rule 4-902(3)(a), the calculated closing price for the MOC Security will be the price at which most shares will trade, leaving the least imbalance, where the price does not exceed the closing price acceptance parameters determined by the Exchange for such security.
- (c) Orders shall execute in the Closing Call in the following sequence:
 - (i) MOC Market Orders shall trade with offsetting MOC Market Orders entered by the same Participating Organization, according to time priority, provided that neither order is an unattributed order; then
 - (ii) MOC Market Orders shall trade with offsetting MOC Market Orders, according to time priority; then
 - (iii) MOC Market Orders shall trade with offsetting limit orders in the Closing Call entered by the same Participating Organization, according to time priority, provided that neither order is an unattributed order; then
 - (iv) MOC Market Orders shall trade with offsetting limit orders in the Closing Call, according to time priority; then
 - (v) limit orders in the Closing Call shall trade with offsetting limit orders in the Closing Call entered by the same Participating Organization, Limit orders are prioritized by MOC Limit Orders and displayed limit orders, then dark limit orders, then MOC Closing Offset Orders. Within those categories they are then matched according to time priority, provided that neither order is an unattributed order; then
 - (vi) remaining orders in the Closing Call shall trade according to time priority.
- (d) An order for a MOC Security shall not execute if, at the close:
 - (i) an automatic closing delay has been initiated in the MOC Security because the calculated closing price exceeds the volatility parameters determined by the Exchange; or
 - (ii) the participation of the MOC Security has been otherwise delayed by a Market Surveillance Official.

(4) Unfilled Orders

- (a) Except as otherwise provided in this Rule, all MOC Orders that are not completely filled in the Closing Call shall expire at the end of the Closing Call and will be removed from the Book and the MOC Book.
- (b) In the event that the closing price acceptance parameters are exceeded for a MOC ~~security~~Security, MOC Market Orders shall trade with offsetting MOC Orders and any limit orders at the price at which most shares will trade, leaving the least imbalance, where the price does not exceed the closing price acceptance parameters determined by the Exchange for such security. All remaining MOC Orders will be removed from the Book and the MOC Book.
- (c) All other orders, that are not marked as ~~MOC~~Market-On-Close, that are not completely filled in the Closing Call shall be eligible for trading in the Special Trading Session.

[...]

Amended (January 12, ~~2015 and~~2015, November 21, 2016 and [•], 2019)